Message Text

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USEEC

GENEVA FOR MTN; PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: ETRD, EIND, ECON, EC, BE
SUBJECT: STEEL: BELGIUM UNEASILY APPROACHES THE CROSSROADS

REF: (A) BRUSSELS 641; (B) BRUSSELS 11227

1. SUMMARY. THE BELGIAN GOVERNMENT AND POPULACE ARE GEARING UP FOR A TIME OF DEBATE AND DECISION ON THE FUTURE OF THEIR STEEL INDUSTRY. STEEL IS IN TROUBLE THROUGHOUT
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WESTERN EUROPE, BUT BELGIUM HAS SUFFERED PARTICULARLY FROM OUTMODED FACILITIES, HIGH COSTS AND HEAVY DEPENDENCE ON EXPORT MARKETS. THE INDUSTRY IS CURRENTLY BEING KEPT AFLOAT BY GOVERNMENT FINANCING AND GUARANTEES WHILE COMPANIES' DECISIONS ON NEW CAPACITY, LAY-OFFS AND FINANCIAL CHANGES ARE SUSPENDED, AT LEAST TO THE END OF THIS YEAR. THE DELAY IS TO GIVE TIME TO THE U.S. FIRM

MCKINSEY TO COMPLETE A STUDY ON THE BELGIAN/LUXEMBOURG STEEL INDUSTRIES WHICH COULD SERVE AS A BASIS FOR GOB/ COMPANY/LABOR NEGOTIATIONS NEXT SPRING ON THOROUGHGOING STRUCTURAL REFORM. SPECULATION ON MCKINSEY'S FINDINGS COMBINED WITH CONTINUED ECONOMIC HARD TIMES, THE RODANGE-ATHUS AFFAIR LAST SUMMER AND CURRENT US-EC-JAPANESE STEEL TALKS HAVE ALL SERVED TO DRAMATIZE THE SITUATION IN RECENT WEEKS.

2. THE GOVERNMENT HAS SO FAR TAKEN A CONSERVATIVE POSITION WITH REGARD TO RESTRUCTURING. OFFICIALS ADMIT THAT GOB PARTICIPATION IN STEEL MAY GROW--BUT EMPHASIZE THAT THE INDUSTRY MUST BE PUT ON A LONG-TERM PROFITABLE BASIS, EVEN AT THE COST OF WHAT MAY BE OVER ONE-QUARTER OF THE INDUSTRY'S CURRENT WORK FORCE. INTERNATIONALLY, THE BELGIANS PLACE GREAT STORE IN THE DAVIGNON PLAN TO STABIL-IZE EC MARKETS AND WANT A STEEL UNDERSTANDING WITH THE U.S. BOTH TO AVOID WIDER DAMAGE TO WORLD TRADE AND TO ALLOW THEM TO TACKLE THEIR DIFFICULT INTERNAL STEEL PROBLEM WITH-OUT OUTSIDE DISRUPTION. TO SUCCEED WITH INTERNAL STEEL RE-STRUCTURING, THE BELGIANS, PRAGMATIC AND HIGHLY EXPERT IN METALLURGY, HAVE SOME ADVANTAGES--BUT GETTING BUSINESS AND LABOR TOGETHER ON A MEANINGFUL LONG-TERM PROGRAM WILL UN-DOUBTEDLY ENTAIL MAJOR NEW EXPENSES FOR A NATIONAL BUDGET ALREADY DEEP IN DEFICIT. END SUMMARY.

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3. BACKGROUND.

THE BASIC STRUCTURE AND DIFFICULTIES OF THE BELGIAN STEEL INDUSTRY ARE DESCRIBED IN REF A. SINCE THAT REPORT WAS SUBMITTED IN JANUARY 1977, THE INDUSTRY HAS REMAINED ESSENTIALLY IN A HOLDING PATTERN. IN MARCH OF THIS YEAR, A "TRIPARTITE CONFERENCE" OF GOVERNMENT, STEEL COMPANY AND FINANCIAL INTERESTS AND LABOR ESTABLISHED A MORATORIUM WHICH SUSPENDS: (A) ANY INVESTMENT TO CREATE NEW CAPACITY; (B) ANY WORKER LAYOFFS; (C) ANY STOCK ACTIONS OR TRANSFERS IN THE STEEL COMPANIES; (D) CHANGE OR REDUCTION IN ALL EXISTING BANK CREDIT LINES. THE MORATORIUM EXTENDS UNTIL THE END OF THIS YEAR, BUT MAY IN PRACTICE REMAIN IN PLACE UNTIL AT LEAST JUNE 1978.

4. AN IMMEDIATE NEED HAS BEEN TO KEEP THE STEEL FIRMS AFLOAT AFTER TWO YEARS OF HEAVY LOSSES (1976 LOSSES ARE ESTIMATED AT NEAR ONE-QUARTER OF TOTAL EQUITY). IN ADDITION TO GUARANTEEING EXISTING PRIVATE CREDIT LINES (AMOUNTING TO BF 30 BILLION THIS YEAR), THE GOB ITSELF AGREED TO FINANCE FIVE-SIXTHS OF A SUPPLEMENTAL SHORT-TERM (ONE-YEAR) BF 10 BILLION CREDIT, FIVE PERCENTAGE POINTS OF THE INTEREST

DUE TO BE PAID BY THE NATIONAL TREASURY (A TOTAL GOVERN-
MENT BUDGET OUTLAY FOR 1977 OF ABOUT BF 500 MILLION).
THE FINANCING IS CONDITIONAL ON GOVERNMENT OVERSIGHT OF
OPERATIONS AND INVESTMENT ACTIVITY IN THE DIFFERENT MAJOR
FIRMS.

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TO SECSTATE WASHDC 3161
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
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5. FINALLY, THE BELGIAN GOVERNMENT, ALONG WITH THAT OF LUXEMBOURG, ENGAGED THE U.S. BUSINESS CONSULTANCY FIRM, MCKINSEY AND COMPANY, TO STUDY THE TWO COUNTRIES' STEEL INDUSTRIES (INCLUDING FOREIGN SUBSIDIARIES, NOTABLY IN NORTHEASTERN FRANCE) AND MAKE RECOMMENDATIONS ON POSSIBLE LONG-TERM MEASURES FOR IMPLEMENTATION BEGINNING IN 1978. THE MCKINSEY REPORT IS TO BE COMPLETED BY THE END OF THIS YEAR, FOLLOWED BY FURTHER GOVERNMENT/BUSINESS/LABOR NEGOTIATIONS, PROBABLY IN EARLY SPRING 1978, TO ESTABLISH A LONG-TERM PLAN TO RESTRUCTURE THE INDUSTRY.

6. CURRENT SITUATION.
- EVENTS IN RECENT WEEKS HAVE INCREASED PUBLIC AWARENESS OF BOTH NATIONAL AND INTERNATIONAL ASPECTS OF THE SITUA-

TION. BELGIAN STEEL PRODUCTION HAS SLUMPED BELOW ITS ALREADY LOW LEVEL OF 1976. GENERAL BUSINESS STAGNANCY IN EUROPE MAY PORTEND AN EVEN BLEAKER PICTURE IN 1978 FOR BELGIUM'S EXPORT-ORIENTED MILLS. THE FRENZIED NEGOTIATIONS THIS SUMMER ON THE FATE OF THE BELGIAN-LUXEMBOURG STEEL FIRM MMRA AT RODANGE-ATHUS HAVE FURTHER DRAMATIZED THE CRISIS (THE LUXEMBOURG-INCORPORATED MMRA DID NOT COME UNDER THE MARCH MORATORIUM; ITS INTERIM REFORM, AS REPORTED REF B, INVOLVES ELIMINATION OF 2,100 JOBS, LARGELY THROUGH AN ALMOST COMPLETE SHUTDOWN OF OUTMODED FACILITIES IN THE BELGIAN PART OF THE OPERATION). THERE HAS, OF COURSE, BEEN WIDESPREAD PRESS COVERAGE OF U.S. ANTI-DUMPING MEASURES, THE SOLOMON STUDY AND CURRENT US-EC-JAPANESE STEEL TALKS. FINALLY, WITH YEAR-END APPROACHING, SOME PARTS OF THE SOON-TO-BE-COMPLETED MCKINSEY REPORT HAVE LEAKED INTO THE PRESS, FURTHER FUELING PUBLIC SPECULATION ON THE FUTURE OF BELGIAN STEEL.

7. THE MCKINSEY LEAKS SO FAR REVEAL AN ANALYSIS OF THE BELGIAN STEEL INDUSTRY WHICH DOES NOT MATERIALLY DIFFER FROM OTHERS MADE IN THE PAST. MCKINSEY VIEWS THE INDUSTRY AS SUFFERING BASICALLY FROM STRUCTURAL PRODUCTION/COST FACTORS INCLUDING OUTMODED PLANT CONFIGURATION, ENERGY AND LABOR COSTS HIGHER THAN MOST EC COMPETITORS AND OVER-RELIANCE ON THE SALE OF BASIC, SIMPLE PRODUCTS (RATHER THAN SPECIAL STEELS), MOSTLY (70 PERCENT) IN EXPORT MARKETS WHERE BELGIUM IS RARELY MORE THAN A MARGINAL SUPPLIER (I.E. THE FIRST TO LOSE BUSINESS IN A RECESSION). THE STUDY REPORTEDLY CONCLUDES THAT, WITH CURRENT OUTPUT AT AS MUCH AS 20 PERCENT BELOW LONG-TERM SURVIVAL LEVELS AND DOMESTIC MARKET PRICES AT THREE TO SEVEN PERCENT HIGHER THAN OTHER EC PRODUCERS, THE BELGIUM/LUXEMBOURG INDUSTRY IS IN NEED OF MAJOR SURGERY IF IT IS TO CONTINUE

TO EXIST.

8. WITH THE TIME FOR LONG-TERM DECISIONS STILL SOME MONTHS OFF, THE GOVERNMENT HAS SO FAR TAKEN A RELATIVELY CONSERVATIVE PUBLIC STANCE. AS EXPRESSED BY ITS (SOCIALIST) MINISTER FOR ECONOMIC AFFAIRS WILLY CLAES, WHATEVER STEPS ARE TAKEN MUST PROCEED FROM THE FOLLOWING BASES:
(A) A STEEL INDUSTRY MUST CONTINUE IN WALLONIA, BOTH AS UNDERPINNING FOR THE REGION'S OTHER LARGE AND VITAL

METTALURGICAL ACTIVITIES AND AS A PRIMARY CATALYST OF FU-
TURE ECONOMIC GROWTH IN THE REGION; (B) THAT RESTRUCTURING
SHOULD BE IN HARMONY WITH OVERALL EC EFFORTS THROUGH THE
DAVIGNON PLAN; (C) THE INDUSTRY MUST BE RECONSTITUTED OVER
A PERIOD OF YEARS WITH BOTH PUBLIC AND PRIVATE MONIES ON
A LONG-TERM PROFITABLE BASIS. THIS WILL REQUIRE, ACCORD-
ING TO CLAES, A CHANGE OF THE CURRENT PRODUCT MIX, NO IN-
CREASE IN OVERALL CAPACITY, AND LARGE-SCALE REDUCTION OF

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(A) A STEEL INDUSTRY MUST CONTINUE IN WALLONIA, BOTH AS
UNDERPINNING FOR THE REGION'S OTHER LARGE AND VITAL
METTALURGICAL ACTIVITIES AND AS A PRIMARY CATALYST OF FU-
TURE ECONOMIC GROWTH IN THE REGION; (B) THAT RESTRUCTURING
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A LONG-TERM PROFITABLE BASIS. THIS WILL REQUIRE, ACCORD-
ING TO CLAES, A CHANGE OF THE CURRENT PRODUCT MIX, NO IN-
CREASE IN OVERALL CAPACITY, AND LARGE-SCALE REDUCTION OF
THE EXISTING WORK FORCE IN THE MILLS (NOW ABOUT 50,000).

9. GOVERNMENT MINISTERS, WHETHER CHRISTIAN OR SOCIALIST,
EXCLUDE NATIONALIZATION OF THE MILLS AS AN OPTION. PRI-

VATELY, HOWEVER, CLAES' ADVISORS AND INDUSTRY SOURCES
APPEAR RESIGNED TO THE PROSPECT THAT THE GOVERNMENT WILL
HAVE TO TAKE A SIGNIFICANT EQUITY POSITION IN MOST IF NOT
ALL OF THE MAJOR STEEL COMPANIES--THEIR DEBT/EQUITY RATIOS,A
CORDING TO THESE SOURCES, ARE TOO POOR TO PERMIT MUCH FURTHE
PUBLIC INTERVENTION BY SUBSIDIZED CREDITS OR CREDIT GUAR-
ANTEES. GOVERNMENT OFFICIALS ALSO EXPECT THE NUMBER OF
STEELWORKERS "RECYCLED" OUT OF THE INDUSTRY OVER THE NEXT
TWO YEARS TO REACH TWENTY TO THIRTY PERCENT OF THE CURRENT
INDUSTRY WORK FORCE, I.E. 10-15,000 WORKERS. DESPITE
PUBLIC DENIALS, IT APPEARS LIKELY THAT THE GOVERNMENT WILL
TAKE RESPONSIBILITY FOR THESE NEW UNEMPLOYED THROUGH SOME
VARIATION OF THE FORMULA FOR SPECIAL MIXED PUBLIC-PRIVATE
REGIONAL BODIES FOR NEW INVESTMENT PROMOTION AND PUBLIC
WORKS, A FORMULA FIRST EMPLOYED LAST SUMMER AT RODANGE-
ATHUS (SEE REF B).

10. INTERNATIONAL VIEWS.

BOTH GEOGRAPHICALLY AND COMMERCIALLY, THE BELGIAN STEEL
INDUSTRY IS CLOSELY TIED TO THAT OF FRANCE. THE BELGIANS
CAN BE CONSIDERED GENERALLY TO SHARE THE VIEWS OF EUROFER
HEAD JACQUES FERRY AND OTHER FRENCH STEEL INDUSTRY FIGURES.
5PECIFICALLY, THE INDUSTRY HERE AGREES WITH FERRY THAT, BY
ALLOWING AMERICAN FIRMS EASY RECOURSE TO ANTI-DUMPING
COMPLAINTS, THE U.S. ADMINISTRATION IS, IN EFFECT, ENCOUR-
AGING PROTECTIONISM. ALTHOUGH THEY UNDERSTAND THE "DEMO-
CRATIC" BENEFITS OF OUR LONG, CAREFUL PROCEDURE IN ANTI-
DUMPING CASES, BELGIAN STEELMAKERS SEE THE DELAY ITSELF AS
DE FACTO PROTECTIONISM, SINCE IT CREATES PRICE UNCER-
TAINTIES WHICH INEVITABLY MEAN CANCELLATION OF ORDERS.
THE BELGIANS WERE PARTICULARLY TAKEN ABACK, WE ARE TOLD,
BY THE NATIONAL STEEL COMPLAINT BELGIAN STEEL FEDERATION

SOURCES ADMIT THAT "TECHNICAL" DUMPING IS PROBABLY INEVIT-
ABLE IN CURRENT WORLD ECONOMIC CIRCUMSTANCES, BUT NONETHE-
LESS VIEW NATIONAL'S ACTION AS PREMATURE, PENDING THE OUT-
COME OF CURRENT U.S.-EC DISCUSSIONS. IF NATIONAL'S
COMPLAINT IS EVENTUALLY VALIDATED, IT WOULD CONSTITUTE
A BLOW TO THE BELGIAN INDUSTRY WHICH, JUDGING FROM LOCAL

TRADE STATISTICS, IS RESPONSIBLE FOR ABOUT SIXTEEN PERCENT
OF THE 1976 U.S. IMPORTS IN QUESTION. ALTHOUGH THE
BELGIANS HAVE NOT BEEN AS VOCAL AS THEIR NEIGHBORS TO THE
SOUTH, THE NATIONAL COMPLAINT HAS STRENGTHENED THEIR BE-
LIEF THAT THE ANSWER TO US-EC STEEL PROBLEMS DOES NOT LIE
IN THE REALM OF ANTI-DUMPING.

11. WHAT SOLUTION THEN? IF THE BELGIANS HAD A CHOICE,
THEY WOULD OPT FOR RETURN TO THE OLD VOLUNTARY QUOTAS OF
THE LATE-60'S AND EARLY 70'S. UNDER MUTUAL RESTRAINT,
BELGIUM COULD AT LEAST COUNT ON A SMALL SLICE OF THE U.S.
MARKET. BOTH INDUSTRY AND GOVERNMENT UNDERSTAND, HOWEVER,
THAT CONDITIONS HAVE CHANGED AND THAT QUANTITATIVE ARRANGE-
MENTS ARE PROBABLY NOT IN THE CARDS THIS TIME. MOREOVER,
AS IN SO MANY MATTERS, THE BELGIANS ARE PLACING THEIR HOPES
FIRST AND FOREMOST ON JOINT EC ACTION AND LEADERSHIP--IN
THIS CASE, PERSONIFIED BY THEIR COUNTRYMAN, EC COMMISSIONER
DAVIGNON. THEY WILL GRUDGINGLY BUT ALMOST CERTAINLY
ACCEPT A U.S.-EC DEAL ON STEEL IF IT AT LEAST ADVANCES
DAVIGNON'S EFFORTS TO BRING SOME ORDER TO INTERNAL EC
MARKETS, WHERE MOST BELGIAN STEEL IS SOLD. HEADING A
TRADING NATION PAR EXCELLENCE, THE GOB IS ALSO VERY MIND-

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FUL OF THE LARGER IMPLICATIONS A BREAKDOWN OF THE STEEL TALKS COULD HAVE FOR THE MTN AND WORLD ECONOMY IN GENERAL. MOST OF ALL,THE TINDEMANS GOVERNMENT WANTS A PERIOD OF RELATIVE CALM INTERNATIONALLY TO EASE THE JOB, A THANKLESS ONE IN ANY CASE, OF REACHING INTERNAL AGREEMENT ON STEEL POLICY AT HOME.

12. COMMENT. DESPITE THE INTERNATIONAL HEADLINES, BELGIAN CONCERN WITH STEEL IS THUS BASICALLY FOCUSED IN-WARDS. THE BELGIANS GENERALLY ACCEPT THAT WHATEVER ARRANGE-MENTS EVENTUALLY DEVELOP TO EASE WORLD PROBLEMS IN THE STEEL TRADE WILL NOT RESCUE MOST OF THEIR INDUSTRY FROM ITS UNCOMPETITIVE POSITION. THE GOB LOOKS INSTEAD TOWARD A PROGRAM OF INTERNAL RESTRUCTURING WHICH TAKES BELGIUM

MUCH MORE INTO HIGH VALUE-ADDED, CAPITAL-INTENSIVE PROO DUCTION OF REFINED METALLURGICAL PRODUCTS AND SPECIALTY STEELS.

13. THIS WILL OF COURSE ENTAIL A HEAVY COST IN MONEY AND IN JOBS. DOMESTIC INTERESTS HAVE ALREADY BEGUN JOCKEYING FOR POSITION IN THE RUN-UP TO WHAT WILL BE BELGIUM'S MOST WRENCHING ECONOMIC CHANGE SINCE THE CLOSING OF MOST OF ITS COAL MINES IN THE 1950'S. THE TRADE UNIONS, PARTICULARLY THOSE IN THE CHARLEROI BASIN, ARE CALLING FOR A POLICY BASED FIRST ON SAFEGUARDING JOBS, EVEN IF THIS MEANS TOTAL NATIONALIZATION OF THE SECTOR. COMPANY SPOKESMEN ARE, NOT SURPRISINGLY, STRESSING THE NEED TO REESTABLISH PROFITS AS WELL AS TO LOWER SALARY INCREASES AND UNION MILITANCY, IF RESTRUCTURING IS TO SUCCEED. BOTH SIDES APPEAR TO A-GREE, HOWEVER, THAT A PROGRAM OF GENERAL INDUSTRIAL DIVERSIFICATION IN WALLONIA AWAY FROM STEEL IS NECESSARY.

14. FINALLY, IT IS IMPORTANT NOT TO BE TOO PESSIMISTIC ABOUT BELGIAN PROSPECTS. THE COUNTRY'S LONG-ESTABLISHED METALLURGICAL BASE, INCLUDING A WELL-QUALIFIED LABOR FORCE AND POCKETS OF CONSIDERABLE EXPERTISE AND HIGH-TECHNOLOGY, GIVE IT A START TOWARDS REFORM WHICH OTHERS MIGHT ENVY. REDUCTIONS IN MANPOWER WILL BE PAINFUL--BUT MUCH CAN BE DONE THROUGH EARLY RETIREMENT, NON-RENEWAL OF FOREIGN WORKER CONTRACTS AND OTHER DEVICES TO CUSHION THE COST AND ADVERSE SOCIAL EFFECTS. THIS SAID, NEXT SPRING'S TRI-PARTITE NEGOTIATIONS WILL NEVERTHELESS BE PROTRACTED AND DIFFICULT--AND WILL CERTAINLY RESULT IN MAJOR NEW OFFICIAL COMMITMENTS TO WORKER CONVERSION AND INVESTMENT, EXPENSES WHICH WILL FURTHER WEIGH ON A NATIONAL BUDGET ALREADY

SWIMMING DEEP IN RED INK. CHAMBERS

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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